SEPTEMBER 7, 1989

TO: SENATOR DOLE

FROM: CAROLYN SEELY Carolyn

SUBJECT: AMERICAN BUSINESS CONFERENCE SPEECH

At 9:15 a.m. on Wednesday September 13, 1989, you are scheduled to speak to the annual meeting of the American Business Conference. Lee Brown, CEO of Brown-Foreman Corporation (a family-owned conglomerate -- Jack Daniels, Lenox china) will introduce you.

ABC is comprised of 100 presidents or chief executives of high growth firms with annual revenues ranging from $25 million to $2 billion. (Approximately 80 of the 100 members are expected to attend.) It is chaired by Arthur Leavitt, Chairman of the American Stock Exchange. You spoke to a luncheon of 15-20 ABC members this April, and you addressed the entire group in 1987.

ABC's meeting agenda includes approximately 50 government officials: the Vice President, Treasury Secretary Brady (Tuesday evening), Senators Simon, Gore, Gramm, Kennedy, Domenici, Packwood, Nunn, Kassebaum, Sanford, Dixon, Riegle and Cochran, Congressman Panetta, Gray, Andrews, Anthony, Frenzel, Edwards, LaFalce, and Madigan, and others, such as Michael Boskin of the CEA, Manny Johnson of the Fed, William Seidman of the FDIC, Robert Reischauer of CBO and Roger Porter of the White House.

ABC is primarily concerned with economic issues: fiscal policy (taxes, the deficit, savings, and capital formation); international trade and finance (fair trade, competitiveness and international capital flows) and human capital (education, employee benefits and incentives). You have been asked to speak for approximately 15 minutes on your perspective of the legislative agenda and to spend another 15 minutes on Q&A.

SEPTEMBER 12, 1989

TO: SENATOR DOLE

FROM: CAROLYN SEELY Carolyn

SUBJECT: CAPITAL GAINS UPDATE/BENTSEN IRA ALTERNATIVE

Chairman Rostenkowski met separately with Committee Democrats and Republicans to discuss modifications to his capital gains offer (presumably, minimum basis retroactivity) but deferred any action until Wednesday morning. As additional sweetners, the Chairman is offering total Section 89 repeal and a maximum 28% rate on capital gain income!

The Administration is both interested in this proposal, and reluctant to allow a vote on freezing the maximum income tax rate at 33% which would follow passage of Jenkins' proposal. However, it will not abandon its Ways and Means supporters if they insist on the Jenkins two-year rate cut.

Chairman Bentsen has proposed an expanded IRA as an alternative to capital gains relief. Bentsen would allow taxpayers not currently eligible for IRA deductions (pension plan participants with more than $40,000 AGI on a joint return; $25,000, single) to deduct 50% of their IRA contributions up to $2,000 per year. In addition, IRA funds could be used for college education and purchases of a first home, as you have proposed.

Bentsen argues that there isn't enough revenue for both IRA expansion and capital gains relief. His proposal will promote long-term savings, aid education and home ownership. It is also less weighted in favor of the very rich.

On the other hand, this proposal will not significantly lower the cost of capital or reward risk takers. Moreover, there is no short-term revenue pick-up. The proposal loses $1.2 billion in its first year (fiscal 1991) and $12 billion over four years (through 1994) as compared with the President's original proposal which loses $24.2 billion through 1994 (Joint Tax) and the Jenkins alternative which loses $2 billion.

NEWS RELEASE

Lloyd Bentsen

United States Senator

September 12, 1989
STATEMENT BY SENATOR LLOYD BENTSEN

I am today announcing a proposal to expand and restore the Individual Retirement Account, which was curtailed by the 1986 Tax Reform Act.

I am drafting legislation that will insure all Americans receive at least a 50 percent tax deduction for I.R.A. accounts. It will also allow withdrawal of I.R.A. funds without penalty so long as they are used to either purchase a home or pay for college.

The Bentsen IRA is being offered in place of proposals now before Congress to cut the capital gains tax. We can't afford both and I am convinced that both our economy and the American taxpayer will get a much bigger bang for the buck with an expanded I.R.A.

Personal savings in the U.S. have reached alltime lows. We've saved less during this decade than at any time since World War II. American consumers put only 4 cents of every dollar aside as savings, compared with 16 cents in Japan.

We have lower savings, higher interest and less investment than any of our major trading partners. As a result, U.S. productivity growth — which is the key to future prosperity -- has fallen to only half that of our trading partners.

We've been on a consumption binge in this country and it's important that we start saving and getting our interest rates down so we can be more competitive in manufacturing our products, more competitive in trade.

The expanded and restored Individual Retirement Account plan that I am introducing will give Americans added encouragement to save, not only for retirement but for the major purchases they will make in their lifetimes:

Because of huge, continuing federal deficits we cannot enact both the Bentsen IRA legislation and the capital gains tax cut proposed by President Bush.

We must make a choice and I am convinced that my I.R.A. deserves priority. Cutting capital gains is an investment incentive for a few but the problem is broader than that. With the I.R.A. we'd have the participation of a broad spectrum of middle America. Ultimately, our national savings crisis will be resolved on Main Street, not Wall Street.

-30-

FACT SHEET ON BENTSEN IRA PROPOSAL

CURRENT LAW

Under current law, all individuals are eligible to make IRA contributions, but only those who are not covered by any other pension arrangement and those with income under $25,000 for individuals and $40,000 for married couples are allowed to fully deduct those IRA contributions. Withdrawals from IRAs are subject to ordinary income tax and, if withdrawals are made prior to age 59 and 1/2, an additional 10% penalty tax is collected. There is no exception to the 10% penalty tax for withdrawals used for higher education expenses and first-time home purchases.

BENTSEN PROPOSAL

* Make Deductible IRAs Available to All Americans

  - All those currently eligible for fully deductible IRAs would continue to get the same tax treatment.

  - Those who are not currently eligible for deductible IRAs would get a deduction against their income tax of 50% of their contribution. For example, an individual making an IRA contribution of $2000 would get a deduction of $1,000.

* Penalty Free IRA Withdrawals for Higher Education Expenses

  - Allow penalty-free withdrawal of IRA funds if the amounts are used for higher education expenses. Parents could draw down current or future IRAs to pay for their children's education. High school children with part-time jobs could put their earnings into a tax-favored IRA and withdraw the money when they need it for college tuition. An individual wanting to go back to school after a few years in the work force could use the IRA as a way to save for anticipated education expenses.

* Penalty Free IRA Withdrawals for First-Time Homebuyers

  - Allow penalty free withdrawal of IRA funds for the down payment on first time home purchases.

* Long Term Deficit Neutrality

  - IRA proposal can be financed as part of reconciliation legislation.

PROBLEMS THAT NEED TO BE ADDRESSED

* The low U.S. savings rate contributes to higher interest rates, lower investment, reduced productivity growth and higher trade deficits.

- The U.S. national savings rate for the past decade has been worse than at any time since World War II.

- In 1988, U.S. consumers put only 4.2 cents of every dollar aside as savings compared to about 16 cents for Japanese consumers.

- U.S. net savings rates are lower than all our major economic competitors.

- The $25,000 and $40,000 thresholds of current law are not indexed for inflation. Consequently, fewer Americans are eligible for deductible IRAs every year. An immediate deduction for IRA contributions would provide all Americans with a meaningful incentive to save for their retirement years.

* Americans are not saving enough to make sure that their children will be able to pay for higher education.

- Since 1980, college costs have gone up at a rate twice that of inflation, an increase of over 90%. Simultaneously, the Federal government's role in providing student financial aid has been decreasing.

- The Education Department has estimated that 19 years from now, the total cost of attendance will increase to $200,000 for a private university and to $60,000 for a public university.

- A 1984 Roper Poll showed that only half of the families who expect their children to attend college save anything at all for future college expenses, and of those families that do save the median annual savings is about $500.

* Families are being priced out of the real estate market because housing prices are rising faster than they can save the down payment.

- From 1968 through 1987, housing prices have consistently risen faster than family incomes.

- Home ownership has declined in every year since 1980, by over 13% among families headed by those aged 25-34.

REVENUE IMPLICATIONS

* The Joint Committee on Taxation has provided the following revenue estimates (all numbers are in billions of dollars by fiscal year):

Bentsen IRA Proposal

90	91	92	93	94
#	-1.2	-3.2	-3.5	-4.0

Bush Administration Capital Gains Proposal

90	91	92	93	94
4.0	-4.0	-6.4	-6.9	-10.9

Congressman Ed Jenkins' Capital Gains Proposal

90	91	92	93	94
2.4	3.8	2.6	-5.7	-5.1

* The Bentsen IRA proposal can be financed in a revenue neutral manner over the long-term as part of the Finance Committee's Budget reconciliation package.

* We cannot afford more than one major savings incentive in today's budget climate.

  - Long range revenue requests are pending, but it appears that capital gains proposals will result in substantial long-term increases in the Federal budget deficit. In no event could both an IRA proposal and a capital gains proposal be included without substantially increasing the long-term deficit.

Preliminary indications are that the revenue effect will be very small.

Sept. 13 Wed.

Barry K. Rogstad
President

AmericanBusinessConference

1730 K Street, NW Suite 1200
Washington, DC 20006
(202) 822-9300
FAX (202) 467-4070

Joyce

9:15 SPEAK to whole group (approx 80-85)

Wash. Court Hotel — Ballroom Center (downstairs)

June 22, 1989

The Honorable Bob Dole
United States Senate
SH-141
Washington, D.C. 20510

Dear Senator Dole:

The American Business Conference (ABC) is the voice of the high-growth, entrepreneurial sector of the economy. Our membership is comprised of the chief executives of 100 of the nation's leading companies including Cray Research, A.T. Cross, Automatic Data Processing, Herman Miller, and Pier 1 Imports. Arthur Levitt, Jr., chairman of the American Stock Exchange, is chairman of ABC.

ABC's mission is the promotion of public policies to encourage growth, job creation, and a higher standard of living for all Americans. Our policy advocacy centers upon fiscal policy, international trade and finance, and human capital. This agenda, intentionally restricted, covers the key topics relating to ABC's core goals. Priority activities include working to change the tax structure, a joint project with a Japanese business consortium on access to the Japanese market, the appropriate mix of non-wage labor compensation, and the role of business support for education. ABC executives believe their own business success carries with it a responsibility to help expand economic opportunity and are anxious to work with you to ensure the nation's continued growth.

ABC will hold its Annual Meeting in Washington, D.C. on September 12 and 13. During this meeting, our members will participate in numerous working sessions with the nation's top officials to explore ways in which the business and policymaking communities can work together to promote fundamental economic growth. We would welcome an opportunity to meet with you, and I would like to invite you to participate in an off-the-record policy discussion with some of our chief executive officers at breakfast (8:00 a.m.) or lunch (noon) on Tuesday, September 12 or Wednesday, September 13. These sessions will last one hour and will be held at the Washington Court Hotel (525 New Jersey Avenue, N.W.).

7-5-89 Interim letter

We hope you will be able to participate in our meeting in September and look forward to hearing from you. If you or your staff need additional information, please call me or Fran Frazier at (202) 822-9300.

Sincerely,

Barry K. Rogstad

Barry K. Rogstad

WILL McINTYRE

The Jack Daniel's pouring from the modern plant behind the hollow packs a punch of profits for its maker—on the order of $2.50 per fifth.

KEEPING IT ALL IN THE FAMILY

For 119 years, Browns have run distiller Brown-Forman. Their secret? Meritocratic nepotism, dogged consistency, and premium brands like Jack Daniel's. ■ *by Brett Duval Fromson*

SOMEWHAT improbably for the headquarters of a company that sells whiskey, the Louisville, Kentucky, home office of Brown-Forman resembles nothing so much as the main hall of a proper boarding school. Surrounded by an apron of lawn, a white-columned portico gives entrance to a five-story Georgian building of red brick. On the top floor a pensive middle-aged man works behind a massive wooden desk. He is Chief Executive William Lee Lyons Brown Jr., 53, son of W. L. Lyons Brown, the company's head from 1945 to 1951, who was the son of Owsley Brown, chief from 1917 to 1945, who was the son of George Garvin Brown, who founded Brown-Forman in 1870. The challenge facing Lee Brown: how to maintain the family's control over their cash-rich, publicly held company during the most difficult time for distillers since Prohibition.

REPORTER ASSOCIATE *Susan E. Kuhn*

If he is to succeed, he will have to display continuing mastery over what can seem to an outsider a tangle of contradictions. The Browns are a quiet, genteel family, conscious of their standing in the community, jealous of their reputation. And yet their fortune comes from a business that sometimes smacks of the unsavory. The clan holds family unity as a primary value, but Lee Brown runs the company in a fairly authoritarian way. Nepotism rules at Brown-Forman, a meritocratic sort of nepotism for the most part, but one that still allows primogeniture to determine who becomes CEO. And while the business of selling so-called brown goods such as whiskey is generally awful, Brown-Forman does extremely well. There are lessons for managers here, and not just managers in family businesses.

The Browns have an enduring talent for selling premium spirits, even in a market that euphemistically may be termed mature. Yuppie abstinence and public outrage at drunk drivers have contributed to the tendency of Americans to drink less. In the U.S., consumption of distilled spirits peaked in 1979. Partly because of declining demand, the liquor industry has consolidated, with fewer companies competing more fiercely for shelf space. Despite this, over the past ten years Brown-Forman shareholders have enjoyed a total return that has averaged 21% per annum. The holdings of

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the Brown family, which owns 70% of the Class A stock and 29% of the nonvoting Class B, are worth over $900 million at recent market prices.

So how does the family do it? Begin at the beginning: The Browns aren't sticklers about creating the brands they sell; instead they buy existing brands and then build them. Their three top labels—Jack Daniel's Tennessee whiskey, Canadian Mist whiskey, and Southern Comfort liqueur—were acquired in 1956, 1971, and 1979, respectively. This trio now accounts for an estimated 50% of Brown-Forman's $1 billion in annual sales of wines and spirits, and for 60% of the company's $208 million in operating profits.

JACK DANIEL'S provides the best example of what the company can do with a line it acquires. When Brown-Forman bought the brand, it was to the bourbon-and-branch-water set what Lafite-Rothschild is to connoisseurs of Bordeaux. So confident were the Browns of Jack Daniel's potential for a larger audience that they financed the deal with debt greater than Brown-Forman's net worth.

They were right. In the 33 years since Brown-Forman acquired Jack Daniel's, sales have risen from 200,000 cases a year to four million. The widespread belief in the industry is that it's the most profitable unblended American whiskey on earth. As important, the brand seems to command extraordinary loyalty from its fans. The distillery receives over 60,000 admiring letters a year, and some 200,000 visitors make the pilgrimage to the central Tennessee hollow depicted in Jack Daniel's ads.

The ads don't show you the big bottling plant just over the hill or the disciplined marketing operation behind the brand's success. Every important decision is reviewed by Brown-Forman's executive committee, consisting of Lee Brown; his brother Owsley, 46, the president; and two vice chairmen, Bill Street, 50, and Owsley Brown Frazier, 54, a cousin. The committee ranks each of the company's brands according to its return on investment, a system introduced by Owsley Brown, who is also chief financial officer. Top management holds each brand's marketing manager responsible for hitting his profit target.

The Browns' rigorous adherence to ROI means that they pour dollars into only their most promising brands. They decide on such matters in a series of excruciatingly thorough annual budget reviews. First, Lee and the executive committee set strategic goals. Then managers below get together brand by brand to decide how to meet the objectives. Sales and marketing types come in from the field to hash things out with their peers in finance and production. How many cases do the salespeople think they can sell? What sort of ad support do they need? The process lasts four weeks. Each plan goes to Louisville to be approved by the executive committee. Managers make lengthy two- or three-day presentations, and top management mulls over every marketing issue in detail.

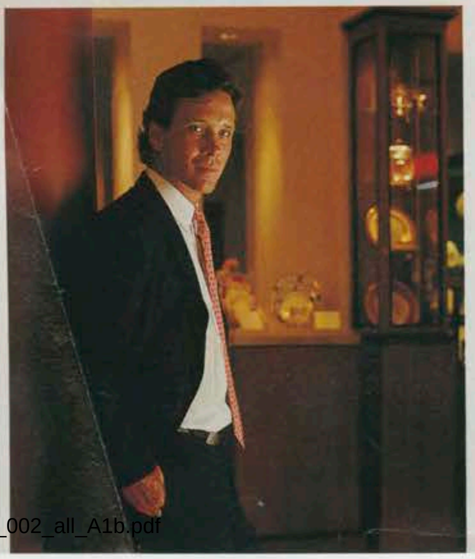
TAKE, for example, the decision to redesign the packaging of Early Times bourbon. The goal was to broaden the brand's appeal, especially to women. The executive committee spent days thinking about it before finally okaying a change to a new squarish bottle, with earth tones on the label replacing macho red and yellow.

One of the committee's abiding principles is consistency. "We keep things fresh by keeping the message the same," says Bill

GEORGE LANGE (2)

CEO Lee Brown has the reins as firmly in his grasp as this platter from his Lenox division.

Heir apparent W. L. Lyons Brown III



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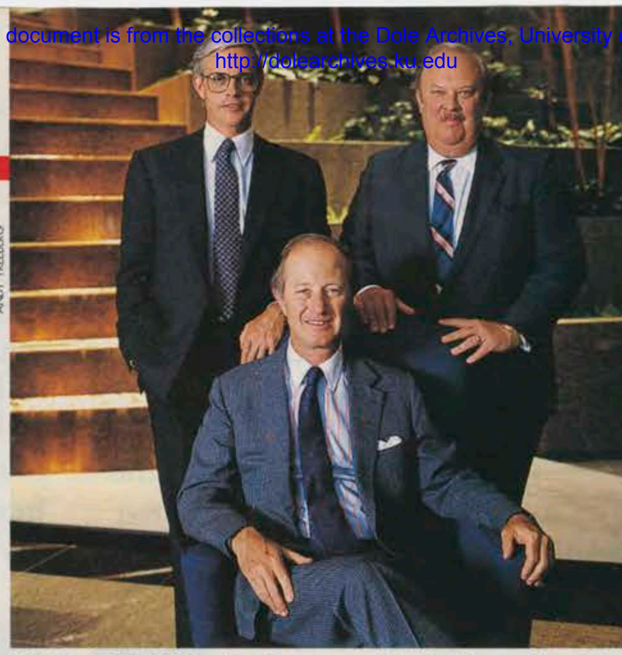
Street. Consider what Brown-Forman has *not* done to the Jack Daniel's label since buying the brand. The label is still black and still says that Lem Motlow is the proprietor, even though he died in 1947.

Brown-Forman's conservatism hasn't prevented it from going global. What the company does is to apply the same consistent marketing approach, but to new markets. When Brown-Forman acquired the Southern Comfort brand in 1979, "The Grand Old Drink of the South" was popular abroad in only England, Australia, and Canada. Today, Southern Comfort has a substantial presence in 80 countries.

Overseas, liquor can generally be advertised in media closed to it in the U.S., and Brown-Forman makes the most of that opportunity. Says the head of its international division, Peter Rutledge: "We spend heavily to advertise and promote." The company's executives see a strong link between ad spending—what they call "voice"—and sales. In West Germany, for instance, Southern Comfort sales have increased fivefold since a 1983 ad blitz on television and at the movies. Ironically, the Southern Comfort sold overseas is no longer even made in the United States. For tax reasons the company usually mixes the basic ingredients—sugar, flavoring, and coloring, including dried prune juice—in St. Croix and then adds grain alcohol in Ireland. The stuff never comes anywhere near the Old South.



ANDY FREEBERG

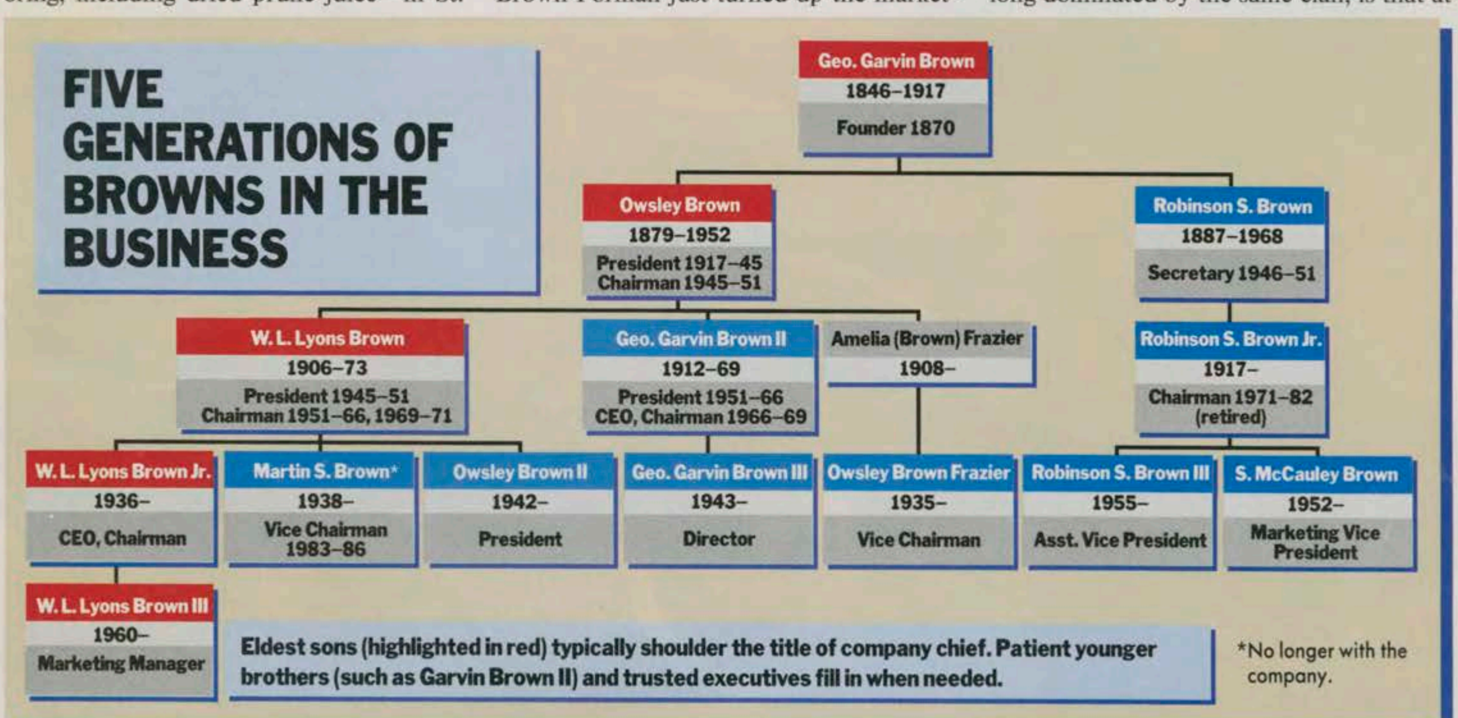
Bill Street (left), Owsley Brown, and Owsley Brown Frazier

THE SAME SORT of slow-but-sure approach that Brown-Forman takes to marketing governed the company's first major move to diversify out of the liquor business—its 1983 acquisition of Lenox, the largest American maker of fine china. Lee Brown spent nearly two years secretly gathering information about New Jersey–based Lenox before making an offer. Why Lenox? "We wanted prestige consumer products with long life cycles. That is what we know about," he says.

Once the hostile takeover was complete, Brown-Forman just turned up the marketing flame under Lenox. The company established stylish free-standing Lenox stores, two designed by noted American architect Michael Graves, in malls frequented by the Mercedes-and-mink set. It also set up a boutique in Bloomingdale's and plans for more.

Other new channels of distribution are further down the snob scale: Lenox has begun selling porcelain figurines via direct mail. As recently as five years ago, Lenox sold a mere $1 million in china this way. Now it sells $60 million a year. Birds, flowers, and the Nativity scene are especially popular. The porcelain operation has also opened seven "seconds" outlets, located far away from its other stores to avoid damage to the brand's cachet. Instead of junking the 6% of output that doesn't quite make the grade, Lenox sells it for 50% of the regular retail price. *Voilà*, a 10% increase in revenues with almost no additional investment. Money manager Thomas Russo, a partner at Gardner Investments in Lancaster, Pennsylvania, estimates that the pretax rate of return to Brown-Forman shareholders from Lenox has been 17% per year, only slightly below the return from the company's wine and spirits business.

Perhaps the Browns' greatest managerial secret, and a surprising one at an outfit so long dominated by the same clan, is that at



Brown-Forman the company comes first and the family second. Consider what happened to former vice chairman Martin Brown, 51, in an incident the Browns don't like to talk about.

In the mid-1980s sales of Jack Daniel's were losing proof. Bigger competitors were muscling distributors to allocate less shelf space to the brand. This was unacceptable to Lee Brown. He wanted sales back up and market share gained. But how? The executive committee began deliberations and, in typical fashion, took two years to arrive at their decision: Consolidate the marketing and distribution operations of Jack Daniel's with those of other Brown-Forman brands. The CEO reasoned that it made no sense to have a salesman pitch Southern Comfort or Early Times to distributors one week and then have a Jack Daniel's salesman drop by ten days later. The company would have more clout at lower cost, he argued, if the same salesman took orders for all the brands.

JOHN ABBOTT (2)

GOLDEN OLDIES FROM LENOX CRAFTSMEN

In Pamona, New Jersey, a caster tends pots while a gilder applies the finishing touches to fine china destined for pricey boutiques.

Everyone on the executive committee agreed with Lee, except his brother Martin, who ran Jack Daniel's. According to nonfamily Brown-Forman executives, Martin sincerely believed that Jack Daniel's image would be diluted if it was sold from the same briefcase as the rest of Brown-Forman's products. He also felt honor-bound to protect the people at Jack Daniel's. Over his opposition the rest of the executive committee voted to revamp along the lines that Lee wanted. Because the tally wasn't unanimous, the decision was referred to the entire board of directors for a final thumbs up or thumbs down.

Martin Brown forced this showdown even though he had little chance of defeating his older brother. Brown-Forman's outside directors think a lot of Lee. One is a lawyer to the company and the Brown family, another the scion of a wealthy Louisville family with large holdings of Brown-Forman stock, and another a pal of Lee's from Fishers Island, New York, where the CEO has a large summer house. The fourth is Lee's first cousin Garvin.

The fratricidal drama played out behind the closed doors of Brown-Forman's elegant boardroom. Owsley Brown, the youngest brother, took Lee's side. He and Bill Street presented the executive committee's position. Then Martin made his appeal. Board members surmised that if he lost, he would leave the company. The outside directors' decision was unanimous: Martin lost. When informed of the result, he told the board that he had no choice but to resign from the company. "It was very, very painful for everyone," says a director.

THERE IS LITTLE DOUBT that Martin's brothers Lee and Owsley made attempts to convince him to stay. But he would not. Was it pride? Frustration? Sibling rivalry? Owsley Brown Frazier, his first cousin and fellow nepot—Brown lingo for a family member who works for the company—has as good an explanation as any: "It goes back to the most fundamental philosophy that we've had as a family: If it is in the best interests of the company that a nepot step aside, then he must. This is something that we all know from an early age." If that attitude seems coldblooded, it is. It also has a lot to do with how the family has managed to hold on to the company.

"Planned nepotism" is how the Browns describe their practice. In a simple yet effective piece of reverse psychology, parents and grandparents emphasize to the young that only the best of the Browns should consider joining up. Nepots must have two degrees, usually a bachelor's and something more advanced, to work at the company. Lee and Owsley got their BAs from the University of Virginia and Yale, respectively, and their masters from the American Graduate School of International Management in Arizona and Stanford business school.

At the same time, Browns who think they might be up to the challenge are subtly encouraged. Lee's eldest boy, Lyons Brown III, 29, recalls, "We talked about the company at home. Dad was very fair, always emphasized that it was not a life or death decision. If I wanted to join, that was great, but if not, that was great too." Whatever Lee Brown said and did, it worked. Son Lyons, having earned his bachelor's degree and MBA from the University of Virginia, has joined the international division as a marketing manager. If past practice holds, he should become CEO some day.

Planned nepotism serves two purposes. It politely keeps the dilettantes at safe remove—on their yachts in sunny climes or within the comfortable confines of the family's 35-acre compound in Louisville—and

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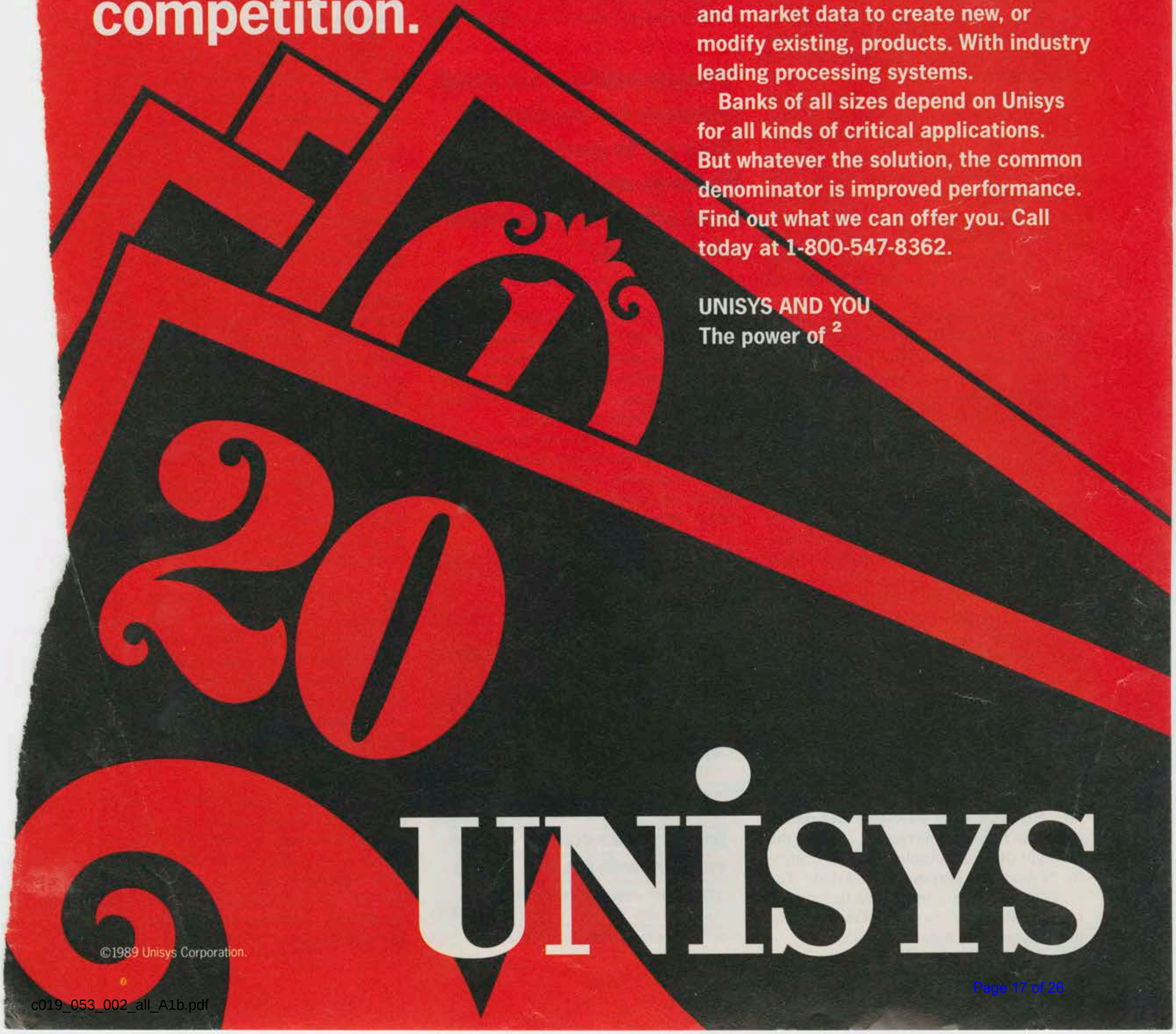

UNISYS

attracts the more dedicated and talented to Brown-Forman headquarters. The fallback position for a Brown is to become a director like Garvin Brown III, who spends half the year in Milan with his second wife, a former professional race car driver.

FOR THE TOP JOB, the line of succession is eldest son to eldest son. (See family tree.) So far none has been a nincompoop. During the occasional interregnums when the first-born is incapacitated and the heir presumptive too green to assume the throne, a family elder plays regent and loyal retainers run the company. This rigid adherence to primogeniture does not appear to create undue tensions in the family. Take Lee and his brother Owsley. Says a friend of Owsley's: "They work together terrifically because there's one pair of pants, and Lee jumps into them first every morning." One cannot qualify as a nepot by marrying into the family. To quote from an official history of the company, "It is the unwritten policy of the Brown family that 'We take care of the sons; the sons-in-law are on their own.' "

Nor have the Browns sought the participation of the women of their family in the business. All clan members currently working at the company are male, and there are no female Browns in the wings. So far the only fifth-generation Brown at Brown-Forman is Lee's boy, Lyons III.

Lee Brown is highly disciplined. You can see it in his courteous smile and watchful eyes. He works all the time, family members say, and sets an almost puritanical standard. As examples of Lee's strictness, a friend of the Browns' points to his decision upon becoming CEO in late 1975 to sell the company's two private jets and move the family's Canadian camp off Brown-Forman's books. Says the friend: "Lee hasn't got an emotional bone in his body."

He can also be dictatorial. Observes a company executive: "People mistake his good manners for weakness. They try to push him, a critical mistake. That's like badgering a bear: He turns and rips your head off before you know what hit you." But Lee's regime suits the rest of the family just fine. Says clan elder statesman and retired chairman Robinson Brown Jr., 72: "Lee did the right thing in consolidating the company. Nobody has ever questioned that." The move did, however, rupture the tie between him and Martin. They visit at family events, but otherwise no longer socialize.

In return for the free hand given him, Lee provides his relations a superior return on their money. In the past five years the annual dividend has almost tripled to $1.52 per share. Recently Brown-Forman used $197 million of its abundant cash to buy in 4.1 million shares of the stock. The dividend hike and the stock repurchases have driven the stock price to new highs, $80 per share for the Class A voting stock and $84 for the Class B nonvoting.

Lee has also worked hard to keep the company and the family out of the line of fire on health and safety issues. Brown-Forman keeps a low public profile. The corporate name rarely appears on a bottle's label and seems to mean little to drinkers or protesters. In addition, since the Lenox acquisition the annual reports have trumpeted china more loudly than liquor.

"People mistake his good manners for weakness. They try to push him . . . He turns and rips your head off before you know what hit you."

Nonetheless, incidents involving Brown-Forman liquor sometimes damage the company's reputation. Probably the worst: In 1986 an inebriated Brown-Forman sales executive who had just left a company party drove his car head on into another, killing a Louisville man. The company settled with the victim's family for an undisclosed sum, and the executive served a month in the county jail after pleading guilty to murder. Lee Brown was particularly upset when an account of the accident appeared on the front page of the New York *Times*. Says Bill Street: "Lee spends a lot of time in New York. He has acquaintances up there," including some who serve with him on the business committee of the Metropolitan Museum of Art. "He never said it, but I know that hurt him."

Mothers Against Drunk Driving (MADD) notwithstanding, Brown-Forman will almost certainly continue to prosper. Its best opportunities lie overseas in wines and spirits—even Lenox, which is well managed, cannot equal the liquor business's typical 30% pretax rate of return on assets. Security analysts predict that if Lee Brown merely makes no big mistakes—overpaying for nonliquor acquisitions, for example—the company's net income should reach $10 a share by the end of 1992. "I could see the stock at $110 a share," says Elizabeth M. Shiels, of the Louisville-based brokerage Hilliard Lyons.

But what if some hungry global colossus were to approach the company offering to pay the 15-times-operating-income that is the liquor industry's typical acquisition multiple—in Brown-Forman's case a high-proof $3 billion, or $107 per share? Company director Garvin Brown replies heatedly: "I have never had Henry Kravis come to me and ask for my vote. But if he tried to take the company over, I think people are pretty damn aware that the Browns' answer would be no."

INHERITANCE TAXES, however, could do what buyout king Kravis cannot. Now that Congress has changed the tax code to prevent generation-skipping trusts, the Browns may one day have tremendous incentives to sell, obviously at an enormous premium to the then current stock price. This is not lost on Lee, who says, "It'll be very hard to pass things on."

The last word on any sale will, of course, belong to the Brown family, who would be guided principally by CEO Lee. Says he: "There have been times in the past when there were offers that seemed wild. But we had the view that our future would be better served by keeping the company. That has not changed." Not yet, at any rate. ■

INVESTOR'S SNAPSHOT
BROWN-FORMAN

SALES (latest four quarters)	**$1.0 BILLION***
CHANGE FROM YEAR EARLIER	DOWN 5.7%
NET PROFIT	**$144.5 MILLION**
CHANGE	UP 39.7%
RETURN ON COMMON STOCKHOLDERS' EQUITY	**26.4%**
FIVE-YEAR AVERAGE	19.9%
STOCK PRICE RANGE (last 12 months)	**$41.875–$83.75**
RECENT SHARE PRICE	**$79.50**
PRICE/EARNINGS MULTIPLE	**15**
TOTAL RETURN TO INVESTORS (12 months to 8/18)	**93.9%**

*Sales figure do not include excise taxes.

SEPTEMBER 13, 1989

TALKING POINTS

AMERICAN BUSINESS CONFERENCE

- IT IS ALWAYS A PLEASURE TO ADDRESS THIS GROUP.

  I MET WITH SOME OF YOU THIS SPRING, AND I AM DELIGHTED TO SEE EVERYONE HERE TODAY.

THE LEGISLATIVE AGENDA

- AFTER A SLOW START, CONGRESS IS NOW FACING THE SERIOUS WORK OF DIRECTING GOVERNMENT SPENDING. OVER THE NEXT EIGHT WEEKS, WE MUST ENACT ALL 13 APPROPRIATIONS BILLS, THE BUDGET RECONCILIATION (IF A SEQUESTER IS TO BE AVOIDED) AND A PERMANENT INCREASE IN THE FEDERAL DEBT LIMIT. IN ADDITION, WE WILL REVISIT THE ISSUES OF MINIMUM WAGE, THE PRESIDENT'S CHILD CARE INITIATIVE, AND FUNDING FOR THE WAR ON DRUGS.

- AND THE DEADLINES ARE LOOMING. IF ACTION ON THE APPROPRIATIONS BILLS IS NOT COMPLETED BY OCTOBER 1, A CONTINUING RESOLUTION WILL BE NEEDED TO KEEP THE GOVERNMENT RUNNING INTO THE NEW FISCAL YEAR. IF THE RECONCILIATION PROCESS IS NOT COMPLETED BY OCTOBER 15, WE FACE OUR FIRST BUDGET SEQUESTER UNDER THE GRAMM-RUDMAN-HOLLINGS LAW. IF THE DEBT LIMIT IS NOT RAISED BY APPROXIMATELY OCTOBER 30, ALL GOVERNMENT SPENDING WILL BE SUSPENDED.

- O I BELIEVE THAT WE WILL AVOID AT LEAST TWO OF THESE -- A SEQUESTER AND A GOVERNMENT SHUT-DOWN -- NOT BECAUSE OF CONGRESSIONAL LEADERSHIP, BUT BECAUSE OF THE LEADERSHIP OF PRESIDENT BUSH.

THE BUSH ADMINISTRATION

- O FOR YEARS, THE DEMOCRATS MADE THE MISTAKE OF UNDERESTIMATING RONALD REAGAN. THEY ARE MAKING THE SAME MISTAKE TODAY WITH GEORGE BUSH.

O WHILE THE CONGRESS HAS BEEN EMBROILED IN LEADERSHIP BATTLES, THE PRESIDENT HAS SUBMITTED AND GOTTEN A SAVINGS AND LOAN BAILOUT WHICH MEETS HIS CRITERIA. HE HAS CREATED NEW INITIATIVES ON CHILD CARE AND DRUGS. HE HAS INSISTED ON HIS POSITIONS ON THE MINIMUM WAGE AND THE FSX. AND, TO EVERY DEMOCRAT'S SURPRISE, HE APPEARS READY TO WIN TAX RELIEF FOR CAPITAL GAINS.

CAPITAL GAINS

O SIX MONTHS AGO, FEW WOULD HAVE PREDICTED THAT THE PRESIDENT COULD PREVAIL AGAINST OPPOSITION FROM THE DEMOCRATIC LEADERSHIP IN CONGRESS TO FULFILL HIS CAMPAIGN PROMISE OF A REDUCTION IN THE CAPITAL GAINS TAX. TODAY, THE DEMOCRATS ARE ARGUING OVER THE FORM THIS RELIEF WILL TAKE. AND IT IS CLEAR THAT THE OUTCOME WILL BE MORE THAN SIMPLE INDEXING AND THAT THERE WILL BE SOME RELIEF FOR THE HOLDERS OF EXISTING CAPITAL ASSETS -- THE PRESIDENT'S CRITERIA FOR AN ACCEPTABLE PLAN.

MINIMUM WAGE

- SIMILARLY, ALTHOUGH THE SENATE DEMOCRATS HAVE RE-PROPOSED THEIR MINIMUM WAGE LEGISLATION, THE REALITY IS THAT THEY ARE GOING TO HAVE TO COMPROMISE WITH THE PRESIDENT. AND IF THE COMPROMISE DOES NOT INCLUDE A MEANINGFUL TRAINING WAGE FOR BUSINESS, I BELIEVE THAT THEY WILL LOSE AGAIN. THIS PRESIDENT SIMPLY DOES NOT GIVE UP WHEN HE KNOWS HE IS RIGHT.

CONCLUSION

- O THEREFORE, I BELIEVE THAT YOU WILL SEE THE CONGRESS MUDDLE THROUGH AS USUAL -- PROBABLY WITH A SHORT-TERM CONTINUING RESOLUTION TO TIDE US OVER INTO FISCAL I990. HOWEVER, THIS ADMINISTRATION IS NOT MUDDLING THROUGH. GEORGE BUSH IS SYSTEMATICALLY ENACTING THE REPUBLICAN AGENDA.

- O THANK YOU.